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FM AMCONSUL SAO PAULO
TO RUEHC/SECSTATE WASHDC 7668
INFO RUEHBR/AMEMBASSY BRASILIA 8786
RUEHRI/AMCONSUL RIO DE JANEIRO 8434
RUEHRG/AMCONSUL RECIFE 3875
RUEHAC/AMEMBASSY ASUNCION 3171
RUEHBU/AMEMBASSY BUENOS AIRES 2935
RUEHCV/AMEMBASSY CARACAS 0597
RUEHMN/AMEMBASSY MONTEVIDEO 2494
RUEHLP/AMEMBASSY LA PAZ 3557
RUEHSG/AMEMBASSY SANTIAGO 2198
RUCPDO/USDOC WASHDC 2946
RUEATRS/DEPT OF TREASURY WASHDC
RUEHC/DEPT OF LABOR WASHDC
RUCPDO/USDOC WASHDC 2947

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STATE FOR WHA/EPSC, WHA/BSC, EEB/OIA
STATE PASS USTR FOR KATE SUCKWORTH
TREASURY FOR JHOEK
USDOC FOR 4332/ITA/MAC/WH/OLAC
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SUBJECT: Brazil's Real Estate Market Booming

REF: Sao Paulo 0832

¶1. (U) In an October 23 meeting with Eli Horn, president and founder of Cyrela Brazil Realty, Ambassador Sobel discussed Brazil's booming real estate business. Horn expects company sales in 2007 to reach USD 1.2 billion, compared with less than USD 200 million in ¶2004. Cyrela's stock is up 50 percent over the past 12 months, the strongest period in the company's history. Horn noted that 60 percent of Cyrela's shareholders are American. Hedge funds in particular foresaw Brazil's real estate boom.

¶2. (U) Cyrela is Brazil's largest developer of residential buildings. Since taking the company public in 2005, Cyrela has expanded out of the cities of Sao Paulo and Rio de Janeiro and into twenty smaller cities across the country. Whereas prior to 2005, Horn claims his company "never saw money," today it is paying cash for land. According to Horn, Cyrela's strategy mirrors that of other real estate development companies: expand beyond the traditional geographic and demographic markets. While the appetite among Sao Paulo and Rio de Janeiro's upper and upper-middle classes for luxury residences remains strong, the real boom is among the middle class and in smaller cities across the country. Horn gave a recent example of a 400-unit building in the state of Espirito Santo that sold 90 percent of its units in less than a week.

¶3. (U) During 2007, there has been one new building project announced daily in the city of Sao Paulo, which translates to 2000 new units per month. This intensity is double that of 2006, and now there are no more cranes available in the city; construction companies are rushing to import them from China. In the first semester of 2007, the construction industry hired over 100,000 workers nationally.

¶4. (U) The real estate boom is directly correlated with the strong economy and the expanding credit market. Real estate mortgages are up 74 percent over the past twelve months (reftel). International banks such as HSBC, ABN Amro and Santander are leaders in the mortgage industry. The thirty-year mortgages offered by Brazilian and international banks have altered the real estate market, making companies like Cyrela less dependent on the stability of the state-owned Caixa Economica Federal, the traditional mortgage

lender. U.S. investment banks have just begun to enter the mortgage market. Goldman Sachs recently invested in Brazilian bank Daycoval, specializing in home mortgages. Horn predicts that as soon as Brazil achieves investment grade - which analysts widely expect will occur over the course of 2008 - others will follow suit. (Comment: It is unclear as yet how the subprime mortgage crisis will affect this growth outlook.)

15. (U) Horn was uncertain about how long the boom can go on. He expressed fear that an internal or external crisis could destroy the market, but did not offer any specific predictions. As a way to buffer itself from such a shock, Cyrela is keeping large cash reserves on hand. Cyrela's current land holdings are sufficient to ensure five years of new projects. Despite his personal hesitation, Horn noted that the general sentiment in the industry is that the honeymoon has just begun. In addition, Horn praised President Lula as "the best president in terms of real estate that Brazil has ever had."

16. (U) COMMENT: Most commentators believe that Brazil's real estate boom is just beginning, as are opportunities for international investors. In addition to the mortgage market, recent IPOs for companies in construction and real estate development have sold as much as 70 percent of shares to international investors. On the brokerage side, Century 21 and Coldwell Banker are in the initial steps of identifying local partners. END COMMENT

17. (U) This cable was cleared by Embassy Brasilia and approved by Ambassador Sobel.